



Insurance Fraud



FBI Program Overview & Consumer Information



Insurance Fraud

A Basic Overview

The insurance industry consists of more than 7,000 companies that collect over \$1 trillion in premiums each year. The massive size of the industry contributes significantly to the cost of Insurance Fraud by providing more opportunities and bigger incentives for committing illegal activities.

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Costs of Fraud

The total cost of Insurance Fraud (non-health insurance) is estimated to be more than \$40 billion per year. That means Insurance Fraud costs the average U.S. family between \$400 and \$700 per year in the form of increased premiums.



The Top Schemes

- Premium Diversion
- Fee Churning
- Asset Diversion
- Workers' Compensation Fraud
- Disaster-Related Fraud

Common Schemes

The Types of Insurance Fraud

Premium Diversion

- Premium Diversion is the embezzlement of insurance premiums.
- It is the most common type of Insurance Fraud.
- Generally, an insurance agent fails to send premiums to the underwriter and instead keeps the money for personal use.
- Another common Premium Diversion scheme involves selling insurance without a license, collecting premiums and then not paying claims.

Fee Churning

- In Fee Churning, a series of intermediaries take commissions through reinsurance agreements.
- The initial premium is reduced by repeated commissions until there is no longer money to pay claims.
- The company left to pay the claims is often a business the conspirators have set up to fail.
- When viewed alone, each transaction appears to be legitimate—only after the cumulative effect is considered does fraud emerge.

Asset Diversion

- Asset Diversion is the theft of insurance company assets.
- It occurs almost exclusively in the context of an acquisition or merger of an existing insurance company.
- Asset Diversion often involves acquiring control of an insurance company with borrowed funds. After making the purchase, the subject uses the assets of the acquired company to pay off the debt. The remaining assets can then be diverted to the subject.

Workers' Compensation Fraud

- Some entities purport to provide workers' compensation insurance at a reduced cost and then misappropriate premium funds without ever providing insurance.

Scam Spotlight

Disaster-Related Fraud: Hurricane Katrina

Massive Storm, Massive Cost

- In late August 2005, Hurricane Katrina made landfall along America's Gulf Coast.
- The storm caused approximately \$100 billion in economic damages.
- Approximately 1.6 million insurance claims were filed, totaling \$34.4 billion in insured losses.
- At least \$80 billion has been appropriated for Hurricane Katrina reconstruction.
- It is estimated that Katrina-Related Insurance Fraud may account for as much as \$6 billion.

Disaster Fraud Schemes

- False or exaggerated claims by policyholders.
- Misclassification of flood damage as wind, fire or theft.
- Claims filed by individuals residing hundreds of miles outside the disaster-zone.
- Bid-rigging by contractors, falsely inflating the cost of repairs.
- Contractors requiring upfront payment for services, then failing to perform the agreed upon repairs.
- Charity fraud scams designed to misappropriate funds donated for disaster relief.

The Government Response

- On September 8, 2005, the Attorney General created the Hurricane Katrina Fraud Task Force (HKTF).
- The HKTF was designed to deter, investigate and prosecute disaster-related federal crimes.
- The HKTF has a zero-tolerance policy for fraud related to Hurricane Katrina.
- In one Katrina-Related fraud case alone, the FBI received more than 70 indictments and over 60 guilty pleas (as of March 2007).



Insurance Fraud Resources

For more information about Insurance Fraud or where to report it, try contacting the following organizations.

Fraud Bureaus

Check to see if your state sponsors a fraud bureau that investigates Insurance Fraud—most states do. You may even be eligible for a reward if you report a scam.

Insurance Companies

Go directly to the insurer you think is being defrauded. Some companies have systems in place for reporting fraud. If the company doesn't have a reporting system or fraud hotline, call or write the company headquarters.

National Insurance Crime Bureau (NICB)

(800) 835-6422

www.nicb.org

The NICB is a non-profit organization that partners with insurance companies and law enforcement to help identify, detect and prosecute insurance criminals. The NICB web site is an excellent source of information.

Coalition Against Insurance Fraud (CAIF) www.insurancefraud.org

The CAIF is a national alliance of consumer groups, public interest organizations, government agencies and insurers dedicated to preventing Insurance Fraud. The CAIF web site offers a wealth of information for consumers.

National Association of Insurance Commissioners (NAIC)

www.naic.org

The NAIC assists state insurance regulators in serving the public interest and achieving regulatory goals. You can find numerous fraud resources on the NAIC web site.

Federal Bureau of Investigation (FBI)

www.fbi.gov

Individuals are always encouraged to report Insurance Frauds to their local FBI offices, all of which are listed on the back of this brochure.



FBI Field Office Contact Information

OFFICE	PHONE #	OFFICE	PHONE #
Albany, NY	518-465-7551	Memphis, TN	901-747-4300
Albuquerque, NM	505-889-1300	Miami, FL	305-944-9101
Anchorage, AK	907-276-4441	Milwaukee, WI	414-276-4684
Atlanta, GA	404-679-9000	Minneapolis, MN	612-376-3200
Baltimore, MD	410-265-8080	Mobile, AL	251-438-3674
Birmingham, AL	205-326-6166	Newark, NJ	973-792-3000
Boston, MA	617-742-5533	New Haven, CT	203-777-6311
Buffalo, NY	716-856-7800	New Orleans, LA	504-816-3000
Charlotte, NC	704-377-9200	New York, NY	212-384-1000
Chicago, IL	312-421-6700	Norfolk, VA	757-455-0100
Cincinnati, OH	513-421-4310	Oklahoma City, OK	405-290-7770
Cleveland, OK	216-522-1400	Omaha, NE	402-493-8688
Columbia, SC	803-551-4200	Philadelphia, PA	215-418-4000
Dallas, TX	972-559-5000	Phoenix, AZ	602-279-5511
Denver, CO	303-629-7171	Pittsburgh, PA	412-432-4000
Detroit, MI	313-965-2323	Portland, OR	503-224-4181
El Paso, TX	915-832-5000	Richmond, VA	804-261-1044
Honolulu, HI	808-566-4300	Sacramento, CA	916-481-9110
Houston, TX	713-693-5000	Salt Lake City, UT	801-579-1400
Indianapolis, IN	317-639-3301	San Antonio, TX	210-225-6741
Jackson, MS	601-948-5000	San Diego, CA	858-565-1255
Jacksonville, FL	904-721-1211	San Francisco, CA	415-553-7400
Kansas City, MO	816-512-8200	San Juan, PR	787-754-6000
Knoxville, TN	865-544-0751	Seattle, WA	206-622-0460
Las Vegas, NV	702-385-1281	Springfield, IL	217-522-9675
Little Rock, AR	501-221-9100	St. Louis, MO	314-589-2500
Los Angeles, CA	310-477-6565	Tampa, FL	813-253-1000
Louisville, KY	502-583-3941	Washington, DC	202-278-2000